of each chapter to a set of propositions and each of these should have been demonstrated in the text. The principles so presented should stand in a clear relation to the larger principles set forth in an introductory chapter. Such a procedure would demand a bolder wrestling with serious difficulties than has been undertaken, but a contribution to principles would more probably result. Where a principle cannot be developed, so much should be explicitly stated.

I should be sorry if my comment seemed to unsay the praise with which the review began. The positive excellences of the book are many. As a text it makes an admirable basis for class discussion; students find it direct, clear, interesting. Its inclusion of detail will necessitate revision every few years, but I do not expect it soon to be superseded as a class text. And if its title had not stressed principles I should have written a different review — and a shorter one!

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NEARING'S INCOME; KING'S WEALTH AND INCOME

That two books [1] dealing with the distribution of wealth and income in the United States should appear in one year is in itself significant. There is no field of economic inquiry more in need of tilling. We know just enough about the real facts to be certain of their tremendous import. We are conscious of their dramatic quality, of their possibly tragic significance for the future of our economic civilization. But our knowledge lacks precision. The facts are beclouded by a haze of uncertainty, they have no vividness or compelling

[1] Income, an Examination of the Returns for Services Rendered and from Property Owned in the United States By Scott Nearing, Ph.D. New York: The Macmillan Co, 1915. (Pp xxvii + 238)

The Wealth and Income of the People of the United States. By Willford Isbel King, Ph.D. New York. The Macmillan Co, 1915 (Pp. xxiv + 278)

power. We know that a very large proportion of wealth and income is in the hands of a very small number of people. But we know little of changes and tendencies for better or worse, and we lack those subtle but perceptible symptoms of health or disease and those illuminating question marks, pointing the way for inquiries into causes and remedies, which definite and detailed statistical information would give us.

Most of all, of course, we need more and better statistical raw material. The statistical yield of our federal and state income taxes (and of other taxes, too) needs to be properly tabulated and critically analyzed. Our census statistics of wealth are the most complete that any country has, but they fall far short of telling us what such statistics ought to tell. Probate records ought to be made to yield up their secrets. Such tasks must be left to government bureaus, or, better, to a combination of public and private (coöperative) activities. In the meantime the best thing that can be done is to utilize the sources of information that we have. The accumulation of raw statistical facts has been slow, but the work of criticism and analysis has been even more laggard. We shall not deserve better materials until we have done our best with what we have. Books like those here under review should be welcomed in so far as they marshal available facts in a field which is too largely given over to blind guesswork and unproved assertion, and in so far, moreover, as they point out the gaps in our present knowledge and set problems that may lead us to insist upon a larger and more dependable body of information.

Despite these general considerations, however, it is a pity that Dr. Nearing has thought it worth while to write his book on *Income*. I have not read all of Dr. Nearing's books, but of those I have read this is distinctly the least satisfactory. The fine and wholesome faith in the possibilities of constructive measures for economic betterment that permeates his *Social Adjustment* is absent from this new work. In its place there is the purpose to paint the iniquities of the existing economic situation; and the spirit is bitter. It is the sort of

thing which might have a tonic effect if only it were carefully done. Our prophets of social progress may, if they will, be a little careless of scientific standards of statement and analysis, but we hold our Jeremiahs to strict account. To put the matter plainly, Dr. Nearing's book is not carefully done, and it falls woefully short of the standards that must be set for work of its kind.

The keynote of the book is the distinction between "service income" and "property income," that is, between income from present exertion and income from property. This distinction, Dr. Nearing insists, is the only classification of incomes useful in the general theory of distribution.

Theoretically, the old division of income into rent, interest, wages, and profits is indefensible when applied to the economic conditions now prevailing in the United States. Practically, such a division finds no counterpart in the conduct of present-day business. There is no shadow of justification, either in theory or in practice, for the further use of this outworn terminology. The division of total income into service income and property income meets every demand of both theory and practice. Theoretically, there is a clearly marked line of distinction between that income which is derived from the rendering of services and that which is derived from the ownership of property. Service denotes the expenditure of energy. Property ownership bespeaks a legally established right. Service and ownership are two essentially different concepts. Furthermore, an examination of the various forms of income (using that term to mean a flow of purchasing power) fails to show any share of the income fund which does not fall within this classification. Modern accounts are so kept that the sum paid for services (compensation) is readily distinguishable from the sums paid to owners of the property (interest and dividends). The substitution of the corporate form of business organization for the one-man business and the partnership, has resulted in the virtual elimination of every form of income save these two.[1]

The distinction between these two sorts of income is, of course, of fundamental importance. But when Dr. Nearing implies, as he does in more than one place, that its importance has been missed by the economists, he misinterprets the whole meaning and significance of their treatment of the

[1] Pp. 154, 155.

theory of distribution. From Adam Smith down, the distinction on which Dr. Nearing puts so much stress has been a commonplace. More sharply drawn after the French followers of J. B. Say first clearly differentiated interest and profits, it has given color to a large part of the discussion of the theory of rent and has been kept prominently in the foreground in the discussion of the theory of interest. If most economists have preferred to divide property income into sub-classes it has been merely because they have thought that there was something to be gained by so doing. Even those recent systems of theory in which some of the old lines are blurred have left this fundamental dichotomy virtually untouched.[1]

This does not mean, however, that most economists would draw the line between the two sorts of income just where Dr. Nearing draws it. Dr. Nearing puts wages and salaries into one category; interest, profits, and rent into the other. There are a few who, like Professor Fisher, might emphasize the laborer's " property " in his own powers; there are many who would find some measure of " property income " in the sums actually paid as wages and salaries; there are yet more who would find a rather large amount of " service income " in Dr. Nearing's " property income," especially in profits. May it not be possible that the reason why Dr. Nearing finds his classification faithfully reflected in modern accounting practice [2] is that his line of demarcation is rather carelessly drawn ?

Just how the income categories of the business world fall into these two divisions is a matter of much practical importance, both for such statistical inquiries as Dr. Nearing attempts and for the framing and administration of tax laws. Dr. Nearing neglects the long-continued discussion of this problem in England, which began with a famous controversy

[1] Dr. Nearing's book is dedicated " to three men who grasp the real significance of the conflict between service and property income, — Joseph E. Cohen, J. A. Hobson, Edwin Cannan." Taking the book itself as context, this seems to misinterpret the views of Mr. Hobson and Professor Cannan. Any orthodox Marxian socialist would have been a more fitting dedicatee.

[2] Dr. Nearing exaggerates the extent to which modern accounting separates the labor bill from other operating costs.

in which J. S. Mill took an important part, and which was vigorously renewed at the time of the recent differentiation between " earned " and " unearned " income in the English income tax.

The greater part of the book is devoted to statistical inquiries, and in particular to an attempt to determine the amounts of money income in the United States that go to service and to property, respectively. Dr. Nearing's use of statistical material is in most respects fair and impartial, altho, of course, he does not attempt to do more than to analyze the available figures in the light of his own peculiar definitions of service income and property income. But there is no attempt at a really critical use of statistics, and at a number of points there are slips. The most serious of those I have noticed is an overstatement (p. 37) of the net amount paid in dividends by American railroads by $169,000,000, or 58 per cent.[1]

Dr. Nearing makes considerable use (pp. 124, 138) of the figures for total corporate capitalization reported to the Commissioner of Internal Revenue under the Corporation Tax Law, but without allowing for the very large amount of double counting in these statistics, resulting from intercorporate holdings. And he interprets this exaggerated amount of merely nominal capitalization as representing an equivalent amount of " potential income-yielding property." Not content with this, he also includes the aggregate amount of public indebtedness and the value of city real estate in his estimate of total income-yielding property, without deducting for the portion of such property which is held by corporations. There are other errors of this general sort, but these are possibly the most glaring.

Much space is given to the manœuvering of statistics which throw no light on the problem Dr. Nearing sets for himself, but which may easily create a false impression. Such, for example, are the figures showing the proportion of the service

[1] There is a similar, but much smaller, overstatement of railroad interest payments. The figures quoted by Dr. Nearing include intercorporate payments, and were not obtained from the table he cites as authority, which gives the correct figures.

income paid in manufacturing establishments to the gross value of manufactured products and to the value added by the manufacturing process. Indeed, it is not easy to discover any purpose in the larger part of Dr. Nearing's statistics. His figures show, of course, that the ratio of service income to property incomes is different for different industries. But Dr. Nearing is not interested in these differences. He passes his statistics under formal review, and then contents himself with this general conclusion:

> It is neither practicable nor is it necessary to fix the amount of property income paid at five, six, or seven billions annually. The significant, vital fact is that property income payments are being made, and that these payments must be reckoned, not in hundreds of millions, but in billions.[1]

A few pages devoted to a summary of the outstanding facts in the situation would have bolstered up this conclusion quite as well as do Dr. Nearing's detailed statistics, with all their misleading appearance of careful accuracy.

But Dr. Nearing's statistics will stand scrutiny better than will his economic theories. At the outset he sketches a theory of distribution in terms of "monopoly" — a term which he deems synonomous with "scarcity." The old categories are used, and there is this frank statement: "The wages of labor are returns in proportion to monopoly in exactly the same sense that the interest on capital and the rent on land are returns to monopoly."[2] But on the next page the new classification is introduced, and with it another theory of distribution. "The capitalist and the landlord receive returns for the ownership of property." "The laborer receives returns for the expenditure of effort." These incomes still "vary with" monopoly power, but the new names carry us away from that principle, and we are not surprised to find productivity finally imputed to labor and to labor alone. The receivers of property income are dubbed parasites, and the whole bulk of property income is viewed as a disposable surplus, available for distribution to the

1 P. 152.

2 P. 16.

workers, and destined to be the bone of contention in a class struggle. All this has a Marxian ring, but it is so naïve, so superficial, that it hardly rises above the level of street-corner socialism. There is nowhere the slightest attempt to reckon with the problem of the necessity and permanence of property income. In fact, I fail to see why Dr. Nearing does not round out his doctrines in a really consistent manner, by including in his property-income category the money that goes for the replacement of capital, thus making the whole social dividend, over and above current wages, a disposable surplus.

Dr. Nearing's theory of distribution, extravagant and superficial as it is, is nothing new. But the least defensible thing in the book is, I fear, his own. This is an attempt to picture property values as entrenched behind legal bulwarks, exacting tribute as a government exacts taxes, gathering income as a matter of right and of law.[1] Recent developments in the control of the income of public-service corporations are interpreted as inspired only by the purpose to guarantee a *minimum* income to security holders, and, through vague allusions, the impression is created that these developments cover the whole field of corporation activity. Business enterprises, hazards, losses, do not appear in the picture. The enormous mass of past investment that yields no current income is ignored. Property income is made a derivative of existing property values.[2]

It is not a pleasant task to review a book which has to be ranked so far down the scale as this one. That Dr. Nearing's views are extremely radical makes the reviewer's task more difficult. To guard against misunderstanding I must say, in conclusion, that the fault I have to find with the book

Quite in line with this is Dr. Nearing's assertion that property income is more certain and more stable than service income. The facts, I am very sure, are the other way.

[2] And, Dr. Nearing says, "All of the property which might be made to yield an income has not yet been assessed and placed upon the books" (p 119) I am not sure that I understand the real inwardness of this new way of creating income. In part, however, it seems to hinge upon the fictitious importance Dr Nearing attaches to par values, and in part to his refusal to reckon with other than money incomes. Thus, if two householders should exchange dwellings and should pay rent, each to the other, "property income" would have been created.

is not that it is radical, but that its statistics are carelessly put together, its theorizing is superficial, and its radicalism lacks any constructive or illuminating quality.

Dr. King's *Wealth and Income* is a good book. Free from irrelevant and insignificant detail, it represents a courageous and painstaking attempt to get at the larger facts in the situation. If it errs, it is through an excess of courage. Dr. King forces his way through to a larger body of positive conclusions than any other writer in his field has reached. These conclusions are, of course, of various degrees of trustworthiness. They are accompanied by estimates of their dependability, in the form of statements that the error is "probably not greater" than a specified per cent. The use of these estimates of limits of error is altogether praiseworthy, but it is not always easy to see on what they are based, nor is it quite clear what is the precise meaning of the word "probably" in the phrase quoted.

It is to be regretted that Dr. King has not taken his readers more into his confidence in respect to these and other details of the methods he has used. He indicates his sources but does not explain all of his estimates. It is impossible to verify his results except by doing his work over again from the beginning. Dr. King explains in the preface that his book is intended for the "average reader" and purports to give only an "impressionistic picture of the subject under consideration." No doubt it is highly desirable that careful estimates like Dr. King's should be available for popular reference use, but this does not excuse the failure to open the methods used in reaching the estimates to the scrutiny of scholars. Dr. King should tell us more about his methods.

After a preliminary discussion of the concept of wealth, Dr. King passes to an account of the "changes in the social wealth of the American people." Here the subject of land supply is singled out for an admirable special treatment, covering urban, agricultural, and mineral lands. The discussion of the supply of "active capital" (instrumental

goods) involves a large element of guesswork, and I doubt whether it is worth while to attempt to run the figures for such items as buildings, machinery, and tools back to 1850. Nevertheless, the general impression given by these figures is probably not inaccurate. The results deserve much more confidence than do Dr. Nearing's estimates of the amount of income-yielding property. Where the two sets of figures are at all comparable, Dr. King's are invariably very much the smaller. But despite Dr. King's disclaimer of pretensions to accuracy, I cannot think that his use of the Bureau of Labor's wholesale-price index to eliminate the effect of the changing value of money from his figures for the per capita value of active capital in successive census years is justifiable. We know very little about the relation of changes in the value of fixed capital to changes in the general wholesale-price level. The results are enough to condemn the method. For example, the unadjusted per capita value of active capital is estimated at $188 for 1860 and $233 for 1870. When divided by the wholesale-price index (on a 1890–1899 base), these figures yield quotients of 133 for 1860 and 105 for 1870. Making generous allowance for the effects of the war on the southern states, the latter figure may be challenged as utterly inconsistent with the general industrial history of the decade from 1860 to 1870.

For his study of the distribution of wealth Dr. King relies upon the Massachusetts probate records, supplemented by the results of an investigation of similar records in six Wisconsin counties by Dr. M. O. Lorenz. Mortality statistics are used as a basis for estimating the number of estates not probated. By assuming a maximum limit of only $500 for the value of such estates, Dr. King, it is likely, somewhat exaggerates the inequalities in the distribution of wealth. A similar error of possibly more consequence is introduced by his failure to make any allowance for the much greater inequality of possessions among men at the close of life than among men with a normal age distribution.

The distribution of estates in Massachusetts in 1890 is shown to be very much like their distribution in 1860, and

there is a really striking similarity between the distribution of Wisconsin estates in 1900 and that of Massachusetts estates in 1860. Similar statistics for France (1909) show a close resemblance to the American figures, and this is also true for the distribution of wealth in Prussia, as shown by the property-tax assessments for 1908. In the United Kingdom, however, there is a much higher degree of wealth concentration. In these comparisons, as in his account of the distribution of incomes, Dr. King employs effectively the graphic device suggested by Dr. Lorenz, which proves to be an admirable instrument for the purpose. In studying the average value of the estates of different classes of the population at different periods, Dr. King again makes what seems to me an unwarranted use of the index number of wholesale prices.

Dr. King's most important chapter is concerned with the distribution of family incomes in the United States. This is the first attempt that has ever been made to estimate income distribution for the country as a whole. The results are likely to be widely quoted. In view of the paucity of materials, the attempt is a daring one, and the margin of error, of course, may be very wide. The sources used are the Wisconsin income tax returns, as analyzed by Professor H. M. Trumbower; certain estimates made at the time the federal income tax was framed; and the available statistics of wages, salaries, and workingmen's budgets. The federal income tax returns came too late to be available except in fragmentary form. "The methods followed in combining the figures," says Dr. King, "were mainly graphic and were too varied to describe here." But it appears that the Wisconsin returns were taken as fairly representative for the distribution of middle-class incomes, the estimates for the higher and lower incomes were pieced on, and the whole curve smoothed.

In using such methods the determination of the aggregate amount of income to be distributed is a matter of prime importance. Dr. King got his figures by estimating the value of the *annual product*, which he places (for 1910) at

$30,530,000,000.[1] This highly ingenious way of attacking the problem is thoroughly sound in principle. Except for a few minor differences, caused by such things as variations in the net balance of international debits and credits and in the amount of vendible goods carried over from one year to another, the aggregate annual product must be identical in value with the aggregate annual income.[2]

The average family income is put at $1,494. The mode is very nearly $700, and the median is a little less than $800. One-fifth of the families get nearly half of the income; 2 per cent of the families get one-fifth of the income; and the poorest two-thirds of the families get two-fifths of the income. These proportions are very much like those indicated for Prussia by the income-tax returns of 1910.

There is no way of telling how closely Dr. King has got to the truth of the matter. But the federal income tax returns for 1913 show that either his scheme of distribution is very much awry, or that his estimate of aggregate income is very much too large, or that the federal government got not more than three-fifths of the income it was entitled to under the law.

Dr. King proffers an estimate of the shares of the total value of the national income produced in each of the principal fields of industry and service [3] for each census year since 1850. The results are very interesting, especially when put in the form of per cents. But the element of guesswork in such estimates, large enough at the best, increases as one goes back to the earlier census years. Dr. King imputes a

1 "To the value of the products of the extractive industries (agriculture, fishing, and mining) was added the value imparted to these products by the processes of manufacture, transportation, holding for sale, etc The services of the government were assumed to be worth the amount paid for running the government. The estimated value of the direct services of persons and of residence property was added. To avoid duplication, building costs were deducted, since the income from buildings later appears as either business or residence 'rentals.' The remainder constitutes the national income" (P. 129.) Dr. King believes that error in his final result should not be greater than 10 per cent, altho the method described must have involved a large amount of conjecture.

2 Income thus measured is not quite the same thing as "money income," nor does it take account of appreciation or depreciation in property values.

3 Classified as government, commercial and professional services, manufacturing and light and power, transportation, fishing, mining, and agriculture.

maximum error of 25 per cent to his estimate of the aggregate national income in 1850. He seems to have more faith than I have in the accuracy of the statistics of industry and agriculture available for 1850, 1860, and 1870, as well as more confidence in the possibility of reconstructing the past on the basis of the various quantitative relations or proportions that hold true at the present time.

Even more daring is the attempt to apportion the national income in each of these census years among the different factors of production. There are a host of difficulties in such an undertaking, and Dr. King does not tell enough about his methods to enable one to say just how far his ingenuity has enabled him to surmount them. He has confidence in his figures for wages and salaries, and does not believe that those for rent are in error by more than 20 per cent. He does not attach much importance, however, to the line which he draws between interest and profits. Of particular interest is the stability and relatively small size of the share of the national income imputed to rent (never over 9 per cent).[1]

Dr. King reduces his results for wages, salaries, and profits to a per capita basis. Quite aside from the confessed inaccuracy of his estimates of aggregate profits, his figures for per capita profits seem to be void of meaning, by reason of the increasing proportion of profits that is distributed among corporation stockholders. These per capita figures for both wages and profits are marred by being translated into "purchasing power at the prices of 1890–1899" through division by an index of wholesale prices. The results are unfortunate, as is shown by their being wholly inconsistent with what Professor W. C. Mitchell's careful work has taught us to believe of the general trend of wages and profits in the period from 1860 to 1880.

For the period beginning with 1900, however, Dr. King constructs yearly indices of money wages that agree fairly

[1] Dr Nearing may be chagrined to find that Dr King finds about twice as much "property income" as he had been able to discover But he may be consoled by the fact that Dr King's estimates show that the proportion of the national income used to compensate "service" was much larger in 1910 than in 1850, while the proportion going to "property" has suffered a corresponding decrease.

well with the conclusions of Professor Mitchell and other investigators. These figures are modified in accordance with the showings of an index of the cost of living which Dr. King computes for the purpose. Dr. King, like other investigators, finds that real wages have decreased in recent years. But the decline seems not to have begun until after the panic of 1907, and to have been brought to at least a temporary halt in 1910. Dr. King puts rather more stress upon this apparent decline in real wages than our present knowledge of its extent and duration warrants. He is impressed by the cessation of the extraordinary advance made by labor in the thirty years ending with 1897, and he attaches too much weight to the advance in " average profits " which his figures indicate. In particular he uses the recent course of real wages as the text for a philippic against unrestricted immigration. One may easily concede that immigration has had something to do with the slackening of the rate of progress of the standard of living, and yet doubt that it is the sole or even the most important responsible factor. It is no new thing for wages to fail to keep pace with a rising price level. Dr. King's rejoinder is that a period of sixteen years " would seem long enough for wages to have almost completely adjusted themselves to the rising price level." And so it might be, — if prices had stopped rising.

A clear-headed command of economic principles, a rare degree of ingenuity in statistical construction, and a prodigious amount of toil, have gone into the making of this book. Dr. King is somewhat uncritical of the quality of his sources, and he sometimes pushes his statistical adventures a little too far into the wilderness. But he has made a large and important contribution to economic statistics. For some years, at least, his book should hold the supremacy in its field.

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